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## **A Report on Short-Term or 1-Time Limited Duration Health Insurance Policies Calendar Year 2003**

In 1996 the Patient's Bill of Rights legislation (1996 PA 517) was signed into law in Michigan. A provision of that legislation, MCL 500.2213b, requires health insurers to renew or continue in force a nongroup policy or certificate at the option of the individual and a group policy or certificate at the option of the sponsor of the plan. Prior to the enactment of this legislation, health insurers marketed and sold short-term health insurance policies that were not renewable after a specific period of time. Individuals who are between jobs, students who no longer are covered under their parents' policies, and those who may be waiting to become eligible for benefits under a more comprehensive policy often purchase short-term policies. Although these policies never represented a large portion of the health insurance market, an estimated 100,000 policies were in effect in 1997. They served a purpose for individuals who found themselves without coverage for one of the above reasons.

With the enactment of the Patient's Bill of Rights, these policies could no longer be sold because they could not meet the renewability requirements of MCL 500.2213b. The short-term policy is nonrenewable, must be in effect for only 185 days or less in a calendar year, does not cover any preexisting conditions, is available with an immediate effective date, and without underwriting unless optional benefits are offered. If these policies were going to be allowed to continue to exist, legislation had to be passed to allow these types of policies as an exemption from the renewal requirements of the new law.

The Legislature recognized the need for this type of product in the health insurance environment and in December of 1998 passed legislation (1998 PA 457), creating the exemption for the short-term product. Recognizing a potential for misuse of this product to circumvent the Patient's Bill of Rights Act requirements, the Legislature put additional requirements in the exemption to allow the Commissioner and the legislators to monitor the growth of this market in order to determine if a need continued for this type of policy and the exemption.

MCL 500.2213b requires that no later than March 31<sup>st</sup> each year, insurers are required to submit to the Commissioner a written annual report that discloses the gross written premium for short-term or 1-time limited duration policies or certificates issued in Michigan during the preceding calendar year, and the gross written premium for all individual expense-incurred hospital, medical, or surgical policies or certificates issued or delivered in Michigan during the preceding calendar year.

The Commissioner is required to maintain copies of these reports and must annually compile the reports received under this subsection and provide the annual compilation to the Senate and the House of Representatives Standing Committee on Insurance issues no later than the June 1 immediately following the March 31 date for which the reports were provided.

The statute contains a requirement that a health insurer not continue to offer the short-term policies if issuing the policies would cause the collective gross written premium to total more than 10% of the collective gross written premiums for all individual expense-incurred hospital, medical, or surgical policies or certificates issued in Michigan written directly by that insurer or through a corporation that owns or is owned by that insurer.

Attached to this report is Exhibit 1 that specifies the current number of companies writing this coverage, the names of those companies, the total direct premium written during 2003, and the direct losses paid.

There are five companies that write the bulk of this business; American Community Mutual Insurance Company, Fortis Insurance Company, John Alden Life Insurance Company, Clarendon National Insurance Company, and Golden Rule Insurance Company. All of these carriers except for Clarendon appear to have developed a stable market in this product. Clarendon is a new writer in this market.

The companies that reported policies in 2002 and did not have business in 2003 are Mutual of Omaha Insurance Company, State Farm Mutual Auto Insurance Company, and Trustmark Insurance Company. They have withdrawn from this market.

Three new companies entered the market in 2003, Continental General Insurance Company, Continental Life Insurance Company of Brentwood, Tennessee, and Clarendon National Insurance Company.

As noted on the attached appendix, Clarendon National Insurance Company does not have any other health insurance premium to report in Michigan. They do not appear to meet the 10% requirement under MCL 500.2213b. A compliance action will be initiated against this company to prevent them from writing any additional business in this line until they can meet the requirement.

After the Office of Financial and Insurance Services investigated Ace American as a result of last years report, the company sent a revised FIS 0322 and indicated the type of insurance they had reported under the short-term line of insurance was not short term insurance. Therefore, no violation of MCL 500.2213b was found.

## Conclusion

As expected, most of the short-term, limited duration policies are written in the individual market, except for Golden Rule. Individuals who would normally purchase this type of coverage would not have group policies available to them. The group policies are

traditionally written through associations, whose members may have need for the short-term coverage. For example, if a person joined a professional association after graduation from college, that association might offer the short-term policy to that member until they could purchase an employer group policy once they found a permanent position. This market appears to be a small portion of the overall health care market and continues to be marketed with only a few companies.

EXHIBIT 1

Short-Term or 1-Time Duration Health Insurance Policies										
	Policies in Force		Member Months		Direct Prem. Written		Direct Losses Paid		% Market	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
<b>Company</b>										
<b>Individual Business</b>										
American Comm. Mut. Ins. Co.	1,304	1,300	0	0	1,538,152	1,441,946	626,190	621,386	0.015%	0.018%
Continental General Ins. Co.	7	0	215	0	16,908	0	11,476	0	less than .01%	
Continental Life Ins. Co. of Brentwood, Tenn.	31	0	0	0	15,346	0	0	0	less than .01%	
Fortis Insurance Company	2,391	2,465	40,319	48,219	2,843,916	2,965,396	1,125,832	993,319	0.060%	
John Alden Life Ins. Co.	404	407	7,825	8,981	626,015	565,700	102,508	98,681	0.021%	0.018%
Mutual of Omaha Ins. Co.	0	2	0	12	0	739	0	0	N/A	2.393%
Standard Life & Accident Ins. Co.	16	16	192	96	5,458	4,906	0	0	less than .01%	
State Farm Mut. Auto. Ins. Co.	0	0	0	0	0	0	0	3,505	N/A	0.007%
Trustmark Insurance Co.	0	0	0	36	0	1,476	0	83	N/A	0.001%
World Insurance Co.	0	1	14	7	303	2,446	0	184	less than .01%	7.067%
<b>Group Business</b>										
Clarendon National Ins. Co.	390	0	7032	0	173,692	0	18,013	0	100.000%	
Golden Rule Ins. Co.	1	1	16,143	14,737	803,767	711,837	379,418	371,180	0.031%	0.025%